

**MINUTES
BOARD OF TRUSTEES OF THE
INDIANA PUBLIC RETIREMENT SYSTEM**

**Meeting held at:
One North Capitol
1st Floor Conference Room
Indianapolis, Indiana 46204**

December 16, 2011

Board Members Present

Ken Cochran, Chairman
Tim Berry
Jodi Golden
Michael Pinkham
Chris Ruhl
Bret Swanson
Cari Whicker

Others Present

Paul Joyce, Deputy State Examiner, State Board of Accounts
Todd Caldwell, State Board of Accounts
Dawn Anderson, State Board of Accounts
John Dowell, Nyhart
Mike Zurek, Nyhart
Brandon Robertson, PwC
Cindy Fraterrigo, PwC
Pete Keliuotis, Strategic Investment Solutions (SIS)
Tiffany Spudich, CapCites
Richard Moss, Synergy 360
Jerry Cary, Synergy 360

Staff Present

Steve Russo, Executive Director
Erin Hankins, Executive Assistant
Andrea Unzicker, Chief Legal and Compliance Officer
Katie Williams, Legal Analyst
Julia Pogue, Chief Financial Officer
Jeff Hutson, Chief Communication Officer
Teresa Snedigar, Director of Internal Audit
David Cooper, Chief Investment Officer
Scott Davis, Investments, Director of Public Equity
Kevin Hitchen, Senior Investment Analyst
Brian Rogers, Director of Real Assets

Meeting called to order at 10:00 a.m. by Chairman Cochran.

I. Approval of Minutes from October 28, 2011 Board of Trustees Meeting

MOTION duly made and carried to approve the minutes from the October 28, 2011 Board meeting.

*Proposed by: Cari Whicker
Seconded by: Bret Swanson
Votes: 7 in favor, 0 opposed, 0 abstentions*

II. New Business

In accordance with normal practice, written materials for the following matters were provided to the Board members by mail in advance of the meeting.

A. State Board of Accounts Audit Review

Paul Joyce, Deputy State Examiner, presented the Fiscal Year 2011 Audit completed by the State Board of Accounts (SBOA). He summarized the audit process and the cooperation between SBOA and INPRS staff. The SBOA issued an Unqualified Opinion on reports of both TRF and PERF. The audit was performed by SBOA staff members, Todd Caldwell and Dawn Anderson, who were present at the meeting.

B. Corporate Surety Bond

Andrea Unzicker presented the requirements and process for procuring a Corporate Surety Bond for INPRS. The bond is required by the Indiana Code and the amount must be set by the Board. Based on research conducted and prior practice, she recommended that the Board approve a corporate surety bond on the Executive Director, Steve Russo, in the amount of \$50,000.00.

MOTION duly made and carried to approve the staff recommendation relative to a corporate surety bond as described above.

*Proposed by: Tim Berry
Seconded by: Cari Whicker
Votes: 7 in favor, 0 opposed, 0 abstentions*

C. Human Resource Update and Policies Review

Steve Russo presented a Human Resource update and policy review to the Board. He summarized the division of HR functions between INPRS staff and the State Personnel Department, gave a breakdown of HR statistics (headcount, turnover, and demographics), and reviewed the compensation band and salary range structure for INPRS. His presentation also covered employee benefits and the criteria used in employee performance reviews. The policy review included brief summaries of each HR policy and noted when policies were similar to those held by the state of Indiana.

D. Financial Update

Julia Pogue presented the INPRS financial update to the Board. This update included financial highlights as of October 2011, the Fiscal Year 2012 forecasted net position compared to the budget, and actual and forecasted expenses compared to the budget. Board members requested and received information regarding the change of expected contributions and payments and their overall financial impact. Ms. Pogue highlighted the Annual Variance Analysis for administrative, project, and investment costs.

E. Actuarial Valuation and Contribution Rates

Ms. Pogue introduced John Dowell and Mike Zurek from Nyhart, actuaries for TRF, to present the TRF Actuarial Valuation Results from June 30, 2011, to the Board. Significant changes for 2011 included benefit changes, actuarial assumptions and methods, and population changes. They reviewed the key actuarial methods and assumptions used. Five year comparisons were made for participant information, annual benefits paid, and annual contributions.

Mr. Russo added that the Pre-96 fund is forecasted to dip into the pension stabilization fund, while the 1996 account is well-funded with a low number of retirees.

The actuaries reviewed changes in asset reconciliation and liability reconciliation over FY 2011 and offered five year comparisons for ongoing liability funded status for each account. The actuarially calculated contribution rate for the 1996 account was presented for FY 2012 and FY 2013. Projected funding levels for both accounts were made for fiscal years 2012 through 2019.

Objectives and background for setting the contribution rate for the TRF 1996 account were stated. The contribution rate for the 2012 fiscal year is 7.5%. The staff recommendation, based on the 6/30/2011 valuation, is to continue to use a 7.5% contribution rate for the 2013 fiscal year.

MOTION duly made and carried to approve the staff recommendation relative to the FY 2013 TRF 1996 account contribution rate.

Proposed by: Bret Swanson
Seconded by: Jodi Golden
Votes: 7 in favor, 0 opposed, 0 abstentions

Ms. Pogue gave an overview of terms regarding types of contribution rates. She then introduced Brandon Robertson and Cindy Fraterrigo, actuaries from PricewaterhouseCoopers, to present the Actuarial Valuation Results as of June 30, 2011 for PERF. Mr. Robertson began with an Executive Summary, noting significant changes since the June 30, 2010 valuation and summarizing the major actuarial assumptions and methods. Summaries of the Non-PERF individual plans (1977 Fund, JRS, C&E Fund, PARF, LEDB) were presented, covering the following topics for each fund: five year history of funded status, contribution development, projection of funded status, and projection of contributions.

Board members asked several clarifying questions to staff and actuaries regarding who is covered under each fund and reasons for any low-funded status. Relevant information was provided.

Ms. Pogue then presented the INPRS staff recommendation to the Board: Approval of the FY 2013 ARC amount for JRS (\$25.5M), PARF (\$2.6M), and LEDB (\$0.1M) funds and FY 2013 recommended rates for 1977 Police & Fire Fund of 19.7% and C&E Fund of 20.75%.

MOTION duly made and carried to approve the staff recommendation relative to the Non-PERF Funds ARC and contribution rates for FY 2013.

Proposed by: Tim Berry
Seconded by: Bret Swanson
Votes: 7 in favor, 0 opposed, 0 abstentions

Actuaries presented the PERF summary: five year history of funded status, contribution development, projection of funded status, and projection of contributions. A discussion was had regarding the history of smoothing. Actuaries presented three options for calculating contribution rates for political subdivisions participating in PERF for FY 3013: (1) smoothed contribution rates (similar to last year); (2) true rates (also known as annual required contribution "ARC" Rates); and (3) to begin migration to a single, composite rate for all political subdivisions (Composite Rate Migration Plan). Explanations and possible effects were given for each option. Ms. Pogue shared the results of an analysis of the contribution rate alternatives. A discussion was had on the timeline for composite rate migration and the affect on administrative costs.

Ms. Pogue offered the INPRS staff recommendation to the Board: Approval of FY 2013 State ARC Rate of 9.7% and approval of Composite Rate Migration Plan with a composite rate of 10% for political subdivisions.

Board members asked if consideration had been made to place the State in the composite rate group. Staff responded that [it would increase the State rate slightly and will be considered in the future]. A board member suggested that a clear explanation be given to the political subdivisions regarding rate increases. Staff explained that a communications plan has been prepared.

MOTION duly made and carried to approve the staff recommendation relative to contribution rates for PERF.

Proposed by: Bret Swanson
Seconded by: Jodi Golden
Votes: 6 in favor, 0 opposed, 1 abstentions

Ms. Pogue presented a resolution that would eliminate smoothing rules and summarizes the Composite Rate Migration Plan. Chairman Cochran signed Board Resolution No. 2011-12-01: Repeal of Actuarial Smoothing Rules and Setting of Rate Rule.

Ms. Pogue offered a summary and then made a recommendation to the Board to approve New Units and Enlargements for PERF and their corresponding contribution rates.

MOTION duly made and carried to approve the staff recommendation relative to new units and enlargements and contribution rates for PERF.

Proposed by: Chris Ruhl
Seconded by: Bret Swanson
Votes: 7 in favor, 0 opposed, 0 abstentions

F. Investments Update

David Cooper began with an update on the investment committee and reviewed topics covered in the most recent committee meeting: discussion of a 3-5 year plan aligning investments with the overall vision of INPRS; Indiana private equity; Guaranteed Fund performance; and risk package. Mr. Cooper then presented to the Board PERF and TRF current and historical market values (high volatility continues); total, ASA, and target date fund returns; asset allocation; new investments (in private equity) and terminations; and the PERF and TRF watch lists.

G. Unitization and Consolidated IPS Adoption

David Cooper introduced Brian Rogers to present an explanation and overview of INPRS unitization efforts. Mr. Rogers defined investment unitization, summarized the changes, and offered both advantages and disadvantages to the transition. He then gave an overview of the new INPRS investment structure: Unitized Assets, Non-Unitized Assets, and Separate Unitized Assets. Board members who serve on the Investments Committee mentioned their committee meeting discussions of the plan and confirmed their support.

A staff recommendation was made that the Board approve the unitization of certain assets of INPRS.

MOTION duly made and carried to adopt the staff recommendation relative to investment unitization.

Proposed by: Jodi Golden
Seconded by: Chris Ruhl
Votes: 7 in favor, 0 opposed, 0 abstentions

Chairman Cochran signed Board Resolution No. 2011-12-03 approving the unitization of certain assets of INPRS.

Mr. Cooper introduced Kevin Hitchen to present the Investment Policy Statement consolidation update. Mr. Hitchen gave an overview of the new INPRS IPS: a combination of the PERF IPS, the TRF IPS, and industry best practices. He explained the team's process and methods of creating the new IPS and summarized the topics discussed and included in the statement.

A staff recommendation was made that the Board approve the consolidated Investment Policy Statement.

MOTION duly made and carried to adopt the staff recommendation relative to the consolidated IPS.

Proposed by: Chris Ruhl
Seconded by: Bret Swanson
Votes: 7 in favor, 0 opposed, 0 abstentions

Chairman Cochran signed Board Resolution No. 2011-12-02 approving the consolidated Investment Policy Statement.

H. Annual ASA Review

Mr. Cooper introduced Tiffany Spudich from CapCites to present the annual Annuity Savings Account (ASA) review. Ms. Spudich began with an overview of

the current position of ASA plans and the INPRS investment structure objectives. She reviewed the current investment options and gave in-depth explanations of the three option tiers: lifestyle/target date options, core options, and specialty/legacy options. The glidepath roll down was explained and compared with the original asset allocations for the target date options. Ms. Spudich concluded her presentation with performance review and evaluation results for INPRS' investment funds.

I. Executive Director's Report

Steve Russo presented the Executive Director's report. He communicated current stakeholder sentiment from retirees, employers, active members, legislators, and the public. He then updated the Board on the ongoing modernization efforts, focusing on the status of the Employer Reporting & Maintenance (ERM) project and other notable RFPs (new telephone system, property management services, and legal services). He highlighted key metrics from the INPRS Scorecard for Operations, Communications, Finance, Investments, and Audit departments.

III. Adjournment

MOTION duly made and carried to adjourn the December 16, 2011 Board meeting at 1:30 p.m.

Proposed by: Bret Swanson
Seconded by: Jodi Golden
Votes: 7 in favor, 0 opposed, 0 abstentions